Executive's Compensation Agreement Did Not Modify His At-Will Status

by Jeffrey J. Maleska - Monday, June 11, 2018

A Minnesota executive claimed that a compensation agreement guaranteeing his salary and bonus until a specific sales threshold was met was actually a binding employment agreement.

He was wrong.

The Agreement

Daniel Ayala began working for CyberPower Systems in 2006 as an at-will employee. In 2012, Ayala stepped into the role of Executive Vice President and General Manager and signed a "Compensation Agreement," which stated:

The above-mentioned agreement outlines the new salary and bonus structure [of Daniel Ayala] to remain in place until $150 million USD is reached. It is not a multiyear commitment or employment contract for either party.

Ayala was fired before the $150 million sales mark was reached, prompting him to sue for breach of contract. Specifically, Ayala claimed that the new "Compensation Agreement" modified his at-will status and guaranteed his employment until he reached the $150 million threshold. The lower court disagreed and dismissed the claim, and Ayala appealed to the 8th Circuit Court of Appeals, which encompasses Minnesota.

I Know What It Says – Here's What It Meant

Ayala contended that the word “multiyear” in the critical passage was intended to modify the phrase “employment agreement.” In that way, he argued that the Agreement made it clear that his employment ended not after a defined number of years but rather, only after a specific condition ($150 million in sales) was achieved.

The Eighth Circuit disagreed and affirmed the dismissal of the claim. First, they explained that the document is called a “Compensation Agreement,” that it deals only with compensation and that in a subsequent provision it specifically disavows the idea that it guarantees employment. Moreover, Ayala’s interpretation would make the phrase unnecessary – the Agreement already stated that it did not create a “multiyear commitment” so why would it be necessary to state that again?

Minnesota Law Presumes At-Will Status

The Appeals Court added that even if they accepted Ayala’s “stilted” reading of the provision, its language does not overcome Minnesota law’s “strong presumption” of at-will employment. They explained that an employee must demonstrate the employer’s unequivocal intent to provide additional job security. Here, a document that so clearly focuses only on compensation and fails to address any other employment-related issues simply cannot be read to as a vehicle for modifying the employee’s presumed at-will status.

Ayala tried one more time, claiming that the Compensation Agreement does not explicitly say that the relationship remains at-will. The Appeals Court firmly rejected this argument, noting that since Minnesota law presumes at-will employment, there generally is no need for a contractual clause preserving it. Instead, an employee needs to present clear proof that the parties intended to modify the presumption of at-will employment. The Court concluded that the mere absence of an at-will provision, combined with “almost inscrutable terminology” of the agreement was insufficient to meet the burden of proving that the parties intended a different sort of arrangement.

Bottom Line

At-will employment remains the “law of the land” in Minnesota. However, the adoption of ambiguous language in an employment contract or compensation agreement can create a sliver of daylight for an employee (or more precisely, a terminated employee) to argue that the at-will employment relationship had been modified.

Be sure to scrupulously evaluate any such document to insure that there is no ambiguity in regard to the nature of the employment relationship. Even though it takes a strong showing of such intent, you do not want to leave it to a judge or jury to decipher your intent – make it clear from the get-go.